

Northwest Ottawa Water Treatment Plant

Financial Statements
Years Ended June 30, 2004 and 2003

Auditing Procedures Report

70-7523

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Northwest Ottawa Water Treatment Plant	County Ottawa
Audit Date 6/30/04	Opinion Date 10/6/04	Date Accountant Report Submitted to State: 12/15/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BDO Seidman, LLP			
Street Address 99 Monroe Avenue NW, Suite 800	City Grand Rapids	State MI	ZIP 49503-2654
Accountant Signature <i>BDO Seidman, LLP</i>		Date <i>1/18/2005</i>	

Northwest Ottawa Water Treatment Plant

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November 1, 2004

Honorable Mayor and City Council
Northwest Ottawa Water System Administrative Committee

It is with great pleasure that we present the Northwest Ottawa Water System (NOWS) Financial Statements for the fiscal year ended June 30, 2004. This is the second report using the new reporting model as prescribed by the Governmental Accounting Standards Board (GASB) in their Statement 34.

NOWS is a joint venture of Northwest Ottawa area local units of government to provide water treatment services for their respective communities. As the City of Grand Haven, by contract, is the fiscal agent for NOWS, this report has been prepared by City Administration, particularly the Finance Office. City Administration holds full responsibility for the completeness and accuracy for all statements, schedules, notes and analysis herein. To provide a reasonable basis for making these representations, City Administration has maintained a system of internal controls to protect NOWS assets from theft, loss, or misuse and to compile reliable information for the presentation of our financial statement in conformity with generally accepted accounting principles. The cost of internal controls should not exceed the benefit received; therefore, the internal controls have been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. As City Administration, we assert, to the best of our knowledge and belief, that this financial report is complete and reliable in all material respects.

The Reporting Entity

NOWS was established March 1, 1988, through an agreement between the City of Grand Haven, City of Ferrysburg, the Charter Township of Grand Haven and the Township of Spring Lake to provide regional water treatment services. The Village of Spring Lake joined the joint venture on April 24, 1992. In 1986, the current water treatment plant was built and over the years has been upgraded and modified to its current capacity of 15,500,000 gallons per day. It presently operates at an average capacity of 50% during the off season and at 80% capacity during the summer. In 1991, the north intake bed and pumping station was built. In 2002, the south intake bed was built and the City's Ranney wells were dismantled. NOWS presently serves a population of over 45,000.

The City of Grand Haven provides contractual management and financial administration under contractual agreement to NOWS and to the following organizations:

Grand Haven/Spring Lake Sewer Authority, a separate governmental entity providing wastewater treatment services, and,
Ottawa County Central Dispatch Authority, a component unit of Ottawa County, providing "911" emergency dispatch services.

The financial reports of these entities, as well as the City of Grand Haven, are reported elsewhere and are not included here.

Budgeting and Financial Planning

As part of the City's financial planning process, the NOWS Administrative Committee adopts an annual budget including a five-year Capital Improvement Plan. These two documents address the Administrative Committee strategy to improve water treatment operations and maintain the water plant. The budget document provides the financial framework for planning and control, as well as defining the NOWS efforts for the future. The Capital Improvement Plan provides the Administrative Committee and staff with a strategy for future major capital items and related financial resources that will be required over the next five years to implement the Administrative Committee vision.

The budget process normally begins in late fall with a goal-setting session. The Water Plant Manager, the Grand Haven City Director of Public Works, the City Finance Director and the City Manager, working as a Budget Committee, draft the budget on a line item basis, considering capital and operational priorities separately and combining both into a preliminary budget document. The NOWS Administrative Committee adopts the budget, which is included in the overall City of Grand Haven budget document for ease of public review.

After the close of the fiscal year, the annual Financial Statements are prepared to report on the financial condition of the NOWS and the fiscal results of its operations. Included in the report are budget-to-actual comparisons of revenues and expenditures. New to the report is disclosure of both the original budget and the final amended budget.

Economic Condition and Outlook

The current national economic conditions present employment challenges for displaced employees and the local economy as a whole; however, certain industrial investment during the fiscal year provides signs of improvement.

NOWS has noted a continuing increase in water treatment demand from its local municipal customers. A second intake system was constructed in 2002, but is experiencing some operational difficulties with sand and organic infiltration. Ongoing efforts to resolve the difficulties are in process, anticipating the need for a fully functional system to match increased pumping capacity by a proposed expanded treatment facility. NOWS notes the continuing population increase in the townships and future economic and industrial growth will provide increasing demand for water in the future.

Late in the fiscal year, NOWS began to construct a connection to the Grand Rapids water system which was fully activated in the summer of 2004.

2003-04 Initiatives:

South intake and pumping station construction completion and operation
Pumping Station upgrade completed, but the intake is still scheduled for repairs
Plant improvements including one high service pump repair, miscellaneous heating and cooling repairs, dehumidification repairs

Future Initiatives:

Repair and improvement of the south intake system
Repair and assess the Backwash Tank after the South Intake repairs
Security enhancements to the water treatment facility and pumping station
Expansion of the water treatment facility
Inspect and repair low-service and high-service pumps as needed
Inspect and repair roofing material as needed
Heating and cooling repairs as needed
Dehumidification repairs as needed

New Reporting Model Format

The format of the Financial Statements using GASB Statement 34 guidelines is significantly different from years prior to June 30, 2003. The objective of the new model is to increase accountability of NOWS by providing more useful information to a wider range of users. A few of the more significant changes include:

- New to this and last year's reports are both this transmittal letter and the "Management Discussion and Analysis" (MD&A). These documents provide a more in-depth review and discussion of NOWS' financial position. GASB Statement 34 provides very specific guidance for topics that must be covered in the MD&A. Many of the key financial topics are covered by the MD&A, which can be found immediately after the auditors' opinion letter.
- Continuing the appropriate accounting basis for enterprise funds, NOWS statements are presented on a full accrual basis of accounting. The full accrual method addresses overall operating results and the financial position of the NOWS as an economic entity, as is done in the private sector.
- An initiative during Fiscal Year 2002-03 to verify the value of all NOWS assets was not required under GASB 34; however, this updated list serves as a foundation for future reports.
- NOWS has only one operating fund, a proprietary fund.

Once readers understand how the new model works, the new format will most probably be preferred because of the additional information available. The NOWS report is significantly less complex than other municipal reports due to the single fund included in the report and the proprietary fund format.

Independent Audit

State statute and the various local unit charters require an annual financial audit by an independent certified public accountant. In May 2003, City Council selected the accounting firm of BDO Seidman, LLP, Certified Public Accountants, who will provide auditing services for this and the next four annual reports. In the summer of 2004, BDO

Seidman, LLP sold off its Muskegon office to former BDO Seidman, LLP partners. Pridnia LaPres, PLLC provides the same auditing staff once provided by BDO Seidman, LLP plus, as a BDO Alliance Partner, and under the supervision of BDO Seidman, LLP their audit will be approved and published under the BDO Seidman, LLP letterhead.

Acknowledgments

The work of preparing the financial report has required the help and assistance of many people. The staff of the City of Grand Haven Finance and City Treasurer Departments, in particular, spent many hours working on this project. Susan LaPage, Accounting Supervisor, deserves special thanks for her efforts in organizing and directing the audit preparation work.

Sincerely,

Patrick McGinnis
City Manager
Chairman of the
NOWS Administrative Committee

James P. Bonamy, CMFA
Finance Director



BDO Seidman, LLP
Accountants and Consultants

99 Monroe Avenue NW, Suite 800
Grand Rapids, Michigan 49503-2654
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Independent Auditors' Report

Members of the Administrative Committee
Northwest Ottawa Water Treatment Plant
Grand Haven, Michigan

We have audited the accompanying financial statements of the Northwest Ottawa Water Treatment Plant as of June 30, 2004 and 2003 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Northwest Ottawa Water Treatment Plant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwest Ottawa Water Treatment Plant as of June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

BDO Seidman, LLP

October 6, 2004
Grand Rapids, Michigan

Northwest Ottawa Water Treatment Plant Management Discussion and Analysis June 30, 2004

- 1) Financial Highlights
 - a) The Northwest Ottawa Water System operates a Treatment Plant Fund (NOWS) to account for costs of operation and maintenance of a water treatment facility serving the Northwest Ottawa communities of Grand Haven, Spring Lake, Ferrysburg and the townships of Grand Haven and Spring Lake. The NOWS Fund ended the fiscal year within budget. Overall debt was lower due annual principal payments. Net assets were revalued from the June 30, 2002 amounts to meet actual holdings and GASB 34 requirements, causing fund assets to increase during the year ended June 30, 2003. No further revaluing other than current year changes are anticipated.
 - b) Net assets increased by \$68,747.
 - c) Total operating expenses totaled \$1,435,960.
- 2) Overview of Financial Statements
 - a) Overall financial picture

The financial statements provide one view of the NOWS financial position using the full accrual method of accounting. This method of accounting is similar to private sector for-profit accounting.
 - i) Statement of Net Assets

The *Statement of Net Assets* provides information on assets, liabilities and the difference between assets and liabilities, which is now called net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health. A trend of increasing net assets is viewed as a sign of improving condition. The *Statement of Net Assets* is similar to a balance sheet in private sector accounting.
 - ii) Statement of Activities

The *Statement of Activities* suggests the underlying causes of the change in net assets. All changes in net assets are reported as the change occurs. This means the statement includes depreciation on the assets. The statement does not report any capital projects. Capital projects are reported on the *Statement of Net Assets*.
- b) Notes to the Financial Statements

Immediately after the financial statements are the Notes to the Financial Statements. The Notes are an integral part of the financial statements. The Notes contain many additional disclosures about the financial health of NOWS.
- 3) Financial Analysis
 - a) Net Assets

The Statement of Net Assets provides an overview of NOWS assets, liabilities and net assets. As mentioned above, over time, this can provide a good indicator of fiscal health. A comparative analysis between the current report year and the prior year is herein presented.

On the next page is a summarized version of the Statement of Net Assets.

**Northwest Ottawa Water Treatment Plant
Management Discussion and Analysis
June 30, 2004**

**Northwest Ottawa Water System – NOWS
Net Assets**

<i>June 30,</i>	2004	2003
Assets		
Current and other assets	\$ 425,654	\$ 660,050
Capital and restricted assets	8,530,042	9,151,819
Total Assets	8,955,696	9,811,869
Liabilities		
Long-term debt	4,182,500	5,106,250
Other liabilities	1,157,185	1,158,355
Total Liabilities	5,339,685	6,264,605
Net Assets		
Invested in capital assets, net of related debt	3,432,340	2,881,719
Restricted	-	123,350
Unrestricted	183,671	542,195
Total Net Assets	\$ 3,616,011	\$ 3,547,264

Restricted assets were significantly lowered during the fiscal year through debt payment and as operational cash was depleted due to increased south intake operation and testing costs. The NOWS Administrative Committee gave authority to the Fiscal Agent (City of Grand Haven) to borrow cash from restricted assets to pay for these costs in the short run. The committee further adjusted both operation and replacement charge rates upward beginning July 1, 2004. The NOWS Board will need to further consider reimbursement of these restricted assets.

The total net assets of NOWS are \$3,616,011; however, \$3,432,340 represents investment in capital assets including infrastructure. NOWS has \$183,671 in unrestricted net assets. Total net assets increased by \$68,747 in FY2004.

Significant changes in net assets are shown in the table on the next page.

**Northwest Ottawa Water Treatment Plant
Management Discussion and Analysis
June 30, 2004**

b) Changes in Net Assets

**Northwest Ottawa Water System – NOWS
Changes in Net Assets**

<i>Year ended June 30,</i>	2004	2003
Revenue		
Operating revenue – earned revenue	\$ 584,900	\$ 1,138,716
Expenses		
Intake	228,116	254,468
Treatment	537,964	646,067
Administrative	296,751	196,217
Depreciation	373,129	(535,166)
Total Operating Expenses	1,435,960	561,586
Non-Operating Revenue (Expenses)		
Debt service charge	936,963	1,030,116
Capital replacement charge	65,370	67,181
Interest income on investments	6,878	14,044
Interest expense	(60,774)	(103,773)
Deferred change on refunding	(41,250)	(41,250)
Other	12,620	319
Total Non-Operating Revenue	919,807	966,637
Change In Net Assets	68,747	1,543,767
Net Assets, beginning of year	3,547,264	2,003,497
Net Assets, end of year	\$ 3,616,011	\$ 3,547,264

Business-Type Activities – Highlights

The business-type activities had an increase in net assets of \$68,747 from revenues of \$1,606,731. The largest source of revenue was from debt service charge \$936,963 or 58% of revenues for business-type activities.

4) Financial Analysis of Individual Funds

NOWS had revenues of \$1,606,731, a decrease of \$643,645 from the prior fiscal year.

5) Capital Assets and Debt Administration

a) Capital Assets

The NOWS has \$7,614,840 invested in capital assets net of depreciation. Capital assets include all purchases of assets that exceed \$1,000 and have an expected useful life greater than one year. Capital assets includes: land, land improvements, buildings, equipment and utility systems such as water distribution lines. NOWS uses straight line depreciation for all depreciable assets. In FY2004, capital assets decreased by \$373,129.

**Northwest Ottawa Water Treatment Plant
Management Discussion and Analysis
June 30, 2004**

- b) More detailed information about changes in capital assets can be found in Note 3 of the notes to the financial statements.
- 6) Debt
 - a) Summary of debt

NOWS had \$5,395,000 in debt outstanding as of June 30, 2003.
 - b) Note 5 of the notes to the financial statements provides more detailed information on debt and other obligations
- 7) Economic Forecast

NOWS has one main source of revenue, utility charges. Utility sales, while affected by the economy, experience larger swings of revenue from changes in weather conditions. Winter conditions produce less consumption. Increasing consumption is noted during the late spring, peaks in summer and declines in autumn. Additionally, NOWS is in the process of expanding intake systems for anticipated future consumer demand. For the FY2004-05 budget, the Administrative Committee anticipates that sales will be roughly equal to FY2003-04 volumes.
- 8) Contacting the NOWS Financial Management Staff

The City of Grand Haven, by contract, provides fiscal and administrative services to NOWS. This financial report is designed to provide interested individuals including citizens, taxpayers, customers, investors and creditors, with a general overview of NOWS finances and to show NOWS accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at 519 Washington Avenue, Grand Haven, Michigan 49417, or call or e-mail us as noted below:

Patrick McGinnis
City Manager
616 847-4888
pmcginnis@grandhaven.org

James P. Bonamy, CMFA
Finance Director
616 935-3214
jbonyam@grandhaven.org

Financial Statements

<i>June 30,</i>	2004	2003
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 39,654	\$ 65,161
Due from other governmental units	174,215	250,306
Inventories	35,833	30,940
Billing adjustment due from member governmental units (Note 6)	175,952	313,643
Total current assets	425,654	660,050
Long-Term Assets		
Capital assets – net (Note 3)	7,614,840	7,987,969
Restricted assets (Note 4)	915,202	1,163,850
Total Assets	\$ 8,955,696	\$9,811,869

Northwest Ottawa Water Treatment Plant

Statements of Net Assets

<i>June 30,</i>	2004	2003
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 80,589	\$ 60,629
Accrued and other liabilities	74,709	53,704
Due to other governmental units	18,904	3,522
Total current liabilities	174,202	117,855
Current Liabilities Payable from Restricted Assets (Note 4)	982,983	1,040,500
Long-Term Debt – Less current maturities (Note 5)	4,182,500	5,106,250
Total Liabilities	5,339,685	6,264,605
Net Assets		
Invested in capital assets, net of related debt	3,432,340	2,881,719
Reserved (Note 4):		
Reserved for capital improvements	-	123,350
Unreserved	183,671	542,195
Total Net Assets	3,616,011	3,547,264
Total Liabilities and Net Assets	\$ 8,955,696	\$ 9,811,869

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Statements of Revenue, Expenses, and Changes in Net Assets

<i>Year ended June 30,</i>	2004	2003
Operating Revenue , earned revenue	\$ 584,900	\$1,138,716
Operating Expenses		
Intake	228,116	254,468
Treatment	537,964	646,067
Administrative	296,751	196,217
Depreciation	373,129	(535,166)
Total operating expenses	1,435,960	561,586
Operating Income (Loss)	(851,060)	577,130
Non-Operating Revenue (Expense)		
Debt service charge	936,963	1,030,116
Capital replacement charge	65,370	67,181
Interest income on investments	6,878	14,044
Interest expense	(60,774)	(103,773)
Deferred charge on refunding	(41,250)	(41,250)
Other	12,620	319
Total non-operating revenue	919,807	966,637
Changes in Net Assets	68,747	1,543,767
Net Assets , beginning of year	3,547,264	2,003,497
Net Assets , end of year	\$ 3,616,011	\$3,547,264

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Statements of Cash Flows

<i>Year ended June 30,</i>	2004	2003
Cash Flows From Operating Activities		
Operating income (loss)	\$ (851,060)	\$ 577,130
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	373,129	(535,166)
Changes in assets and liabilities:		
Due from other governmental units	76,091	(37,788)
Inventory	(4,893)	(3,398)
Accounts payable	19,960	978
Accrued and other liabilities	21,005	(7,129)
Due to other governmental units	15,382	(4,563)
Billing adjustment due to (from) member governmental units	137,691	(266,184)
Net cash used in operating activities	(212,695)	(276,120)
Cash Flows From Capital and Related Financing Activities		
Principal and interest paid on long-term debt	(1,083,291)	(1,080,006)
Proceeds from debt service charge	1,032,345	966,597
Proceeds from capital replacement charge	65,370	67,181
Purchase of capital assets	-	(3,106)
Proceeds from other revenue	12,620	319
Net cash provided by (used in) capital and related financing activities	27,044	(49,015)
Cash Flows From Investment Activities		
Interest received on investments	6,878	14,044
Net Decrease in Cash and Cash Equivalents	(178,773)	(311,091)
Cash and Cash Equivalents, beginning of year	967,360	1,278,451
Cash and Cash Equivalents, end of year	\$ 788,587	\$ 967,360

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Statements of Cash Flows

<i>Year ended June 30,</i>	2004	2003
Statement of Net Assets		
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 39,654	\$ 65,161
Restricted assets (Note 4)	748,933	902,199
Total	\$788,587	\$ 967,360

Non-Cash Investing, Capital, and Financing Activities – During the year ended June 30, 2003, \$169,846 of assets held at Ottawa County were refunded to member governmental units.

See accompanying notes to financial statements.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The Northwest Ottawa Water Treatment Plant (the Plant) was established for the purpose of constructing, owning and operating a water treatment system for its participating municipalities: the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, the Township of Spring Lake and the Township of Grand Haven.

Under a contract executed in 1988, the City of Grand Haven (the City) is operating and maintaining the Plant. Monthly operating expenses are billed by the City to the constituent municipalities for their proportionate share of those expenses.

Basis of Accounting

The accrual basis of accounting is used in preparing the financial statements.

Cash Equivalents

For purposes of the statement of cash flows, the Plant considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Inventories

Inventories are valued at cost, on a first-in, first-out basis, which approximates market value.

Capital Assets

Capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation is computed on a straight-line method based on the estimated useful lives of the related assets. Costs of maintenance and repairs are charged to expense when incurred.

Water plant, lake intakes, water mains, furniture and equipment are depreciated using the straight-line method over the following useful lives:

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

	Years
Water plant	30
Lake intakes	10-50
Water mains	50
Structures and equipment	33
Office furniture	5

2. Deposits

The Plant's deposits are included on the balance sheet as cash and cash equivalents and as restricted assets (see Note 4). These amounts were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$788,587 and \$960,699 at June 30, 2004 and 2003, respectively. Of these amounts, \$200,000 was covered by federal depository insurance, and at June 30, 2004 and 2003, \$588,587 and \$760,699, respectively, was uninsured and uncollateralized.

3. Capital Assets

Capital assets consist of the following:

	Balance June 30, 2003	Additions	Disposals	Balance June 30, 2004
Capital assets not depreciated:				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Capital assets being depreciated:				
Water plant	8,065,142	-	-	8,065,142
Lake intakes	4,923,007	-	-	4,923,007
Water mains	694,274	-	-	694,274
Structures and equipment	69,267	-	-	69,267
Office furniture	14,032	-	-	14,032
	13,765,722	-	-	13,765,722
Accumulated depreciation:				
Water plant	4,208,566	257,228	-	4,465,794
Lake intakes	1,210,435	98,460	-	1,308,895
Water mains	373,235	13,885	-	387,120
Structures and equipment	5,612	2,099	-	7,711
Office furniture	5,905	1,457	-	7,362
	5,803,753	373,129	-	6,176,882
Net capital assets being depreciated	7,961,969	(373,129)	-	7,588,840
Net Capital Assets	\$ 7,987,969	\$(373,129)	\$ -	\$ 7,614,840

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

4. Restricted Assets Restricted assets consist of the following:

<i>June 30,</i>	2004	2003
Cash and cash equivalents (capital improvements)	\$ 336,763	\$ 443,439
Cash and cash equivalents (for repayment of debt)	412,170	458,760
Due from other governmental units (for repayment of debt)	166,269	261,651
Total restricted assets	915,202	1,163,850
Less current liabilities payable from restricted assets:		
Current portion of long-term debt	(965,000)	(935,000)
Accrued interest on long- term debt	(17,983)	(105,500)
Total current liabilities payable from restricted assets	(982,983)	(1,040,500)
Net Restricted Assets	\$ (67,781)	\$ 123,350

Net Assets at June 30, 2003 have been reserved for the net remaining amount of restricted assets of \$123,350.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

5. Long-Term Debt *Outstanding Debt*

Long-term debt consists of the following:

<i>June 30,</i>	2004	2003
Contract payable to Ottawa County for 2% to 3.2% water treatment facility bonds – 1992 (refinanced – 2002, Series A)	\$3,075,000	\$3,670,000
Contract payable to Ottawa County for 2% to 3.2% intake bonds – 1989 (refinanced – 2002 Series B)	2,320,000	2,660,000
Less deferred charge on refunding	(247,500)	(288,750)
Total	5,147,500	6,041,250
Less current maturities	(965,000)	(935,000)
	\$4,182,500	\$5,106,250

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2004, including both principal and interest, are as follows:

<i>Year ending June 30,</i>	Principal	Interest
2005	\$ 965,000	\$140,125
2006	935,000	120,825
2007	905,000	100,255
2008	880,000	77,630
2009	865,000	52,990
2010	845,000	27,040
Total	\$5,395,000	\$518,865

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

Changes in Long-Term Debt

The following is a summary of long-term debt transactions for the years ended June 30, 2004 and 2003:

Years ended June 30, 2004 and 2003

Long-term debt, July 1, 2002	\$6,975,000
Debt retired	(975,000)
Amortization of deferred charge	41,250
Long-term debt, June 30, 2003	6,041,250
Debt retired	(935,000)
Amortization of deferred charge	41,250
Long-Term Debt, June 30, 2004	\$5,147,500

Debt Charges

The Plant receives a debt charge from participating communities for contracts payable to Ottawa County based on the volume of water sold to those communities. The Plant and the participating communities have pledged their full faith and credit on the contracts payable to Ottawa County.

Defeased Debt

In prior years, the Plant defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2004, \$10,740,000 of bonds outstanding are considered defeased.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

6. Billing Adjustment Due To Governmental Units

The Plant bills its member governmental units for operations, debt and capital replacement. Following is an analysis of the billing adjustment related to the operations of the Plant:

<i>Year ended June 30,</i>	2004	2003
Payments to communities:		
Amounts contractually allowed to collect as adjusted for actual expenses	\$ 584,900	\$ 1,138,716
Amounts billed for fiscal year	(408,948)	(825,073)
Total Due From Member Units	\$ 175,952	\$ 313,643

The Plant overestimated its operating revenues during fiscal year 2003 by approximately \$300,000. The revision of this estimate was made prospectively in the 2004 statement of revenue, expenses and change in net assets.

7. Pension Plan

Plan Description

The Plant participates with the City of Grand Haven in the Michigan Municipal Employees' Retirement System (MMERS), a defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Plant's collective bargaining units. For the year ended June 30, 2004, required employee and employer contributions were suspended due to the overfunded status of the City's actuarial accrued liability.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

Three-Year Trend Information

Funding information for the Plant's participation in the pension plan is as follows:

<i>Year ended June 30,</i>	2004	2003	2002
Annual pension cost (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

8. Working Capital

In accordance with the master agreement with the member governmental units, the Board of Directors of the Plant has agreed to maintain 5/24ths of the operating expenses, excluding depreciation, for working capital. The Plant's working capital exceeded this amount at June 30, 2003. At June 30, 2004, the Plant's working capital was deficient by \$145,923.

Excess working capital may be refunded to the member governmental units at the discretion of the Board. There was no excess working capital refunded to the units during the years ended June 30, 2004 and 2003, respectively.

9. Risk Management

The Plant is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. As an affiliate of the City of Grand Haven, the Plant is partially uninsured for health claims and has purchased commercial insurance for coverage related to claims in excess of certain stop-loss limits. The Plant also participates in the Michigan Municipal League risk pool for workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Northwest Ottawa Water Treatment Plant

Notes to Financial Statements

The City estimates the liability for health claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the City of Grand Haven's Health Benefits Internal Service Funds.